

**ISSUES AND CHALLENGES OF THE BACKPACKER  
INDUSTRY: THE POTENTIAL OF ESTABLISHING  
AN ASSOCIATION FOR BACKPACKER  
ACCOMMODATION OPERATORS  
IN SABAH**



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**UMS**  
UNIVERSITI MALAYSIA SABAH

**SCHOOL OF BUSINESS AND ECONOMICS  
UNIVERSITI MALAYSIA SABAH  
2008**

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**FRANKLIN HAZLEY LAI**



**Dissertation submitted in partial fulfillment for  
the degree of Master of Business Administration  
(MBA)**

**SCHOOL OF BUSINESS AND ECONOMICS  
UNIVERSITI MALAYSIA SABAH  
2008**

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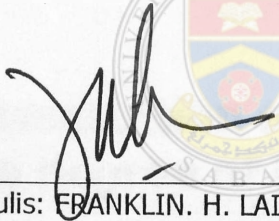
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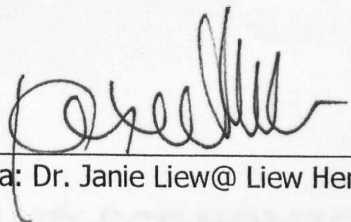
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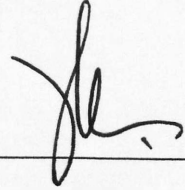
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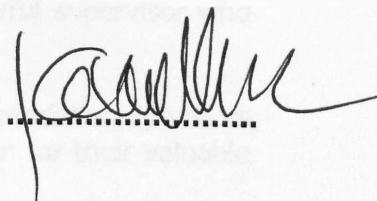
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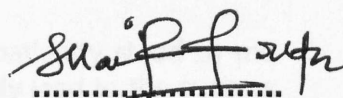
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## ABSTRACT

This paper reports the findings of the issues and challenges in the backpacker industry and its potential to establish an association for the backpacker accommodation owner in Sabah. Issues in this accommodation segment which are Service Standard, Marketing Strategy, Hygiene and Cleanliness, Lack of representation, Lack of Affiliation had showed that there are a high needs of establish an association for backpacker accommodation operators. In order to ensure, the association continuously serve their member and the industry there are 9 challenges in running an association. The potential challenges that need to be observed carefully are chairman credibility, experience and knowledge, committee member support and commitment, financial resources planning, feasible and realistic objective, clear vision and mission of an association, to satisfy member's needs and wants, membership recruiting, service offered to the member and limited expertise.

**Key Words:** Backpacker accommodation operators, Issues, Association, Challenges



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## **ABSTRAK**

### ***ISU DAN CABARAN DALAM INDUSTRI RUMAH INAPAN: SATU KAJIAN POTENSI PENUBUHAN PERSATUAN UNTUK PENGUSAHA- PENGUSAHA RUMAH INAPAN DI SABAH***

*Kajian ini adalah merupakan satu kajian yang menjurus kepada isu-isu and cabaran dalam industri rumah inapan di Sabah. Hasil daripada kajian ini menyatakan terdapat 5 isu yang menjadi penghalang kepada pembangunan sektor ini. 5 isu yang dimaksudkan adalah standard penawaran servis, kaedah pemasaran, standard kebersihan, kekurangan wakil dalam industri dan seterusnya kekurangan kerjasama serantau. Hasil perbincangan isu-isu tersebut, adalah didapati bahawa terdapat permintaan yang tinggi terhadap pembentukan persatuan bagi operator-operator penginapan di Sabah. Bagi memastikan sesebuah persatuan itu dapat terus berkhidmat kepada ahli-ahlinya, 9 potensi cabaran telah dikenalpasti iaitu, kekentalan kredibiliti, pengalaman dan ilmu seseorang pengerusi atau pengarah; Sokongan dan komitmen daripada ahli-ahli persatuan, kedudukan kewangan semasa, objektif yang nyata dan realistik, visi dan misi yang jelas, kebolehan dalam memenehui kehendak dan permintaan para ahli persatuan, pendaftaran keahlian, perkhidmatan yang ditawarkan dan akhir sekali kekurangan pakar dalam menjalankan fungsi-fungsi berpersatuan.*



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# CHAPTER ONE

## INTRODUCTION

### 1.1 Research Background

The World Travel and Tourism Council (WTTTC) have been measuring the economic impact of travel and tourism for the world, regions, and Organization for Economic Cooperation and Development (OECD) countries since 1991. In 1992, they released their first estimates indicating that travel and tourism is one of the World's largest industries and a generator of quality jobs (*Goeldner & Ritchie, 2006*). A survey covering Malaysia, compiled by the Geneva based World Economic Forum (WEF) has ranked Malaysia as the second most price competitive country, out of 124 countries surveyed, in the world. (*Ministry of Urban & Tourism, Sarawak, 2008*). This is taken in the perspective of the travel and tourism industry.

Tourist arrivals in Malaysia have shown a positive growth in number over the years. In 1999, tourist arrivals amount to 710, 163. From an arrival of 20.88 million millions for 2008 (*Tourism Malaysia, 2008*). As for Sabah, the tourism industry has achieved an average of 22% per annum in the last ten years (*Sabah Tourism Board, 2008*). In 2007, it has achieved 2.47 million tourist arrivals (*Sabah Tourism Board, 2007*) exceeding the previous year's target of 2.3 million. This year Sabah Tourism Board (STB) is confident in achieving new target of 2.73 million visitors. (*Ministry of Tourism, Culture & Environment Sabah, 2007*)

With the increasing number of visitors to Sabah it is anticipated that the demand for the range of accommodation type, from budget to luxury rooms, will increase. Accommodation for backpacker in Sabah first started their operation in the late 1990's due to a high demand for budget accommodation. Lucy's Homestay and Trekkers Lodge, both located in Kota Kinabalu, were the pioneers in this sector of the industry. In 2007, there are 30 lodging licenses being registered. (*Kota Kinabalu*

*City Hall, 2008*). If premises are not registered with National Association such as Malaysia Budget Hotel Association (MBHA) or Malaysia Association of Hotel (MAH), there are classified as lodging operators. MBHA are for premises of 2 Star and below and MAH are for 3 Star and above. The implication are, if premises are not registered with either parties, they will not be listed as an inventory under the Ministry of Tourism, Malaysia (MOTOUR), and therefore will not benefit from the Ministry's promotion and marketing. However, there will be listed in STB's promotion and marketing activities as long as they have a lodging and trading license.

Today, backpacker accommodation is more than just a place to sleep. Its role in the promotion of tourism is significant as it goes in-line with the government's effort in the promotion of Sabah. Besides offering reasonable prices for accommodation, it is also a place where travelers meet, discuss and exchange ideas by socializing between individual and groups (*Murphy & Pearce, 1995*).

Although the number of backpacker accommodation is expected to increase, there are several issues that continue to limit the development of the backpacker accommodation industry. Currently, there are 5 major issues which the researcher hopes to confirmed which are; 1) Service standards 2) Marketing strategies 3) Hygiene and cleanliness 4) Lack of representation 5) Affiliation. All of these issues have a reason because members of the industry and relevant authorities have not clearly defined what the industry should represent. As a result, backpacker operators are running their business based on individual economic motivation, without focusing on the sustainability of the industry as a whole. Basically, there are aiming just for survival of their individual business.

In order to address and resolve the issues that are related to backpacker accommodation, this research will assess the potential for the establishment of an association for backpacker accommodation operators in Sabah. An association maybe needed as it would become a "meeting-room" for operator's n order to discuss the problems and consent faced in the industry. By identifying the issues, and searching for the best solution, an increase in the level clearly and standards of the backpacker accommodation maybe realize in.



In addition the establishment of an association may also serve an “umbrella” / representative body for the industry help to promote interest of the industry that the association should perform for the members (*MATTA, 2007*)

The best example to show what an association can do for its members is outline by Malaysian Association of Tour and Travel Agents (MATTA). To promote development and sustainability of tour and travel industry in Malaysia MATTA's objectives are:

- To unite, supervise and coordinate the activities of its members.
- To publicize, encourage, promote and extend the tourist and travel trade.
- To adjudicate and settle any differences which may arise between members whenever its arbitration is requested by both parties concerned.
- To develop friendship and common purpose among the members of the tourist and travel industry.
- To make representations on behalf of members to Government and all organization with which the Association has common interest.
- To encourage the highest ethical standards of business conduct within the trade.
- To study and promote the interest of the tourist and travel trade and profession and to educate the public regarding the function of tours and travel agents.
- To discourage unfair competition without in any way interfering with initiative and enterprise based on fair trading.

The scenario for the accommodation industry refers to two major accommodation associations: *MBHA* and *MAH*. The scenario for the accommodation industry refers to MBHA and MAH. In order to gain entry as a member of either association, your premises must be Star or Orchid rated. Star and Orchid rating certification is implemented by the Ministry of Tourism, Malaysia (MOTOUR). However, none of the backpacker accommodation operators in Sabah can gain membership into either association as they do need fulfill the criteria for the membership. Some operators like Lucy's Homestay had joined MBHA, although they



have not fulfilled the criteria because they want to benefit from MOTOUR promotion and marketing. This has given an indication that there maybe a potential for the setting up of an association which will cater more to their needs. On the other hand, to set up and maintain an association is not easy. In order for it to effective, there are many challenges, such as setting the standard for a customer service culture, products and service offered, dialogue and engagement, chairman selection and alliance building (Golden, 2007). Gaining and influencing members maybe the association's biggest challenge for example many countries have national associations which also act as regulating bodies such as the Association of British Travel Agent (ABTA) in Britain and the American Society of Travel Agent (ASTA) whose code of conduct requires agents to take an active promotional roles (Cooper et al, 2005). MATTA, MAH, MBHA all serve similar roles, in its obligation in promoting the standard of accommodation been provided in Malaysia including Sabah. "Majlis Belia Malaysia" has failed to attract more youth to join the association even though the association has been existence for more than 60 years of establishment.

Therefore, this research is done in order to understand whether there is potential for the formation of an association for backpacker accommodation operators; and what challenges they will face in setting up the new association.

## **1.2 Problem Statement**

Accommodation for backpackers is a new sub segment of the overall accommodation industry, which has recently undergone growth and upgrading, from the normal lodging accommodation offered (Thomson & Thomson, 1995).

Existing backpacker accommodation operators in Sabah are facing five major issues in managing their premises and the sustainability of the industry as a whole has suffered setbacks due to these. The five major issues faced in similar situations and based on the literature reviewed are:

### **i) Service Standards**

Differences in services offered to customers differ from one organization to another. Services are often viewed as a differentiation

strategy to improve market share. In the backpacker accommodation industry, there are no standard service guidelines for the owners in reference to the management of their premises. As a result, accommodation for backpackers is operated based on owners' interpretation of what service standards are. In tourism terminology, Parasuraman, Zeithaml and Berry model (1985) claimed the consumer evaluates the quality of a service experience as the outcome of the difference between expected and perceived service (*Goeldner & Ritchie, 2006*). Customer may experience major differences in each of backpacker accommodation that they are staying due to this issue and at the same time lead to dissatisfaction among the customer towards the industry as a whole.

## ii) Marketing Strategy

There are six P's in service marketing (*Kotler et al., 2006*) which comprises product, place, pricing, promotion, process and people. Price is the only "P" that can produce tangible profits to the business (*Perreault & McCarthy, 2005*). Backpacker accommodation operators charged a price minimum to travelers. However, price wars may arise at low/lean seasons. This is especially true for smaller backpacker accommodation operators, who have no choice but to lower their prices in order to compete. Price wars will only assist a firm in achieving short term sales volume, but will create losses to the industry and the negative impact will be for the long term (*Parsa & Collins, 2004*)

## iii) Hygiene and Cleanliness

Hygiene and cleanliness is crucial in the hospitality industry. Poor hygiene and cleanliness will lead to guest dissatisfaction (*Gu & Ryan, 2008*). What is perceived as clean in one accommodation may not be perceived as clean as another (*Bowie & Buttle, 2006*). This problem occurs because backpacker accommodation operators may not have well defined guidelines for hygiene and cleanliness.

iv) Lack of Representation

Most of the backpacker accommodation operators in Sabah do not belong to any association. Only a few of them have joined the MBHA-Sabah Chapter with hope that MBHA can represent them in the industry. However, MBHA's main focus is mainly on accommodation in the "Two Star\*" and below category (including Orchid Rating category). Backpacker accommodation operators do not belong to any of these categories. As a result, problems faced by the backpacker accommodation operators are not appropriately addressed by the relevant authorities.

v) Affiliation

The backpacker business is solely dependent on word of mouth (*Goeldner & Ritchie, 2006, Cooper et al., 2006*) recommendations. As it is a small business, it relies heavily on affiliation with domestic and international partnerships. For example, Youth Hostel Association (YHA) and The Backpacker Operators Association New South Wales (BOA) allow backpackers in Australia to travel to various countries with discount since they have already established partnerships with backpacker accommodation providers from all around the world. On the other hand, Promperu, Peru Tourism Agency made an effort to affiliate with Virtuoso travel network to cater for luxury tourist. However, backpacker accommodation in Sabah lacks affiliation with any international association, and the effort of promoting is more concentrated on individual capacity in comparison to the whole backpacker accommodation industry worldwide.

Although the demand of backpacker accommodation is slowly catching up in tourism industry, they are actually facing difficulties in sustainability in today's fierce business environment (*Keeley, 2001*). Currently, backpacker accommodation operators in Sabah do not have a formal association to guide and represent them in the industry.

Based on the issues, the researcher has gathered opinions from the backpacker accommodation operators on whether there is a potential in setting up a new association or otherwise, gain membership into one of the other existing associations to address the issues concerned. In the mean time, several key-people in the tourism industry, who has held or are holding senior positions in the existing associations, were interviewed to determine the potential challenges of setting up a new association, should findings revealed that one should be set up, in order to address the issues investigated.

### **1.3 Research Question**

This study aims to understand the issues and challenges within the backpacker accommodation industry Sabah. There are four main research questions examined in this study:

1. What are the issues faced by the backpackers operators in Kota Kinabalu?
2. Is an association needed to promote development and sustainability of the backpacker accommodation industry?
3. Why is an association the best option to promote development and sustainability of the backpacker accommodation industry?
4. What are the challenges in forming an association for the operators of backpacker accommodation in Sabah?

### **1.4 Research Objectives:**

This research aims to understand the issues and challenges in the backpacker industry and the potential of setting up a backpackers association in Sabah. Specifically, the objectives of this study are:

1. To highlight the issues faced by the backpackers operators in managing their business towards a sustainable development of the tourism industry particularly in the segment of hospitality services.
2. To get a consensus from the operators and whether there is a need to form an association for backpacker accommodation operator.



3. To understand operators main reasons for forming the association.
4. To explore the challenges to set up a new association for the backpacker accommodation operators.

### **1.5 Scope of study:**

This research is mainly to study the issues faced by the backpacker accommodation operators in running their business towards the sustainability of the industry. Understanding the issues faced by the backpacker accommodation operators lead to gathering a consensus from the operators as to whether there is a need to form a new association or otherwise.

Challenges in setting up a new association were then backed up with literature review and data collected from the interviews.

### **1.6 Significance of the study**

Backpacker accommodation is not considered when planning is made for the tourism industry (*Hampton, 1998*). Most of the tourism planners will only consider accommodation with at least 10 rooms to be included in their study (*Market Research Unit, Sabah Tourism Board, 2008*), because Governments and industry bodies are mostly geared towards traditional tourists; particularly those who are staying in five star accommodations, who are assumed to have higher spending (*Murphy & Pearce, 1995*). It is the researcher's hope that this study will benefit the backpacker accommodation operators in determining the issues face by them and thus to suggest the needs to form a new association for the backpacker accommodation operators in Sabah.

Challenges in forming a new association was also being listed out as guidelines for the potential association, to ensure that it will remain relevant and effective in the long run.

## **1.7 Limitations of the study:**

There were several limitations that the researcher faced in getting this research done:

1. Backpacker studies are limited in the local scenario. References are made mostly from international cases and scenarios.
2. This research is limited in scope and sample size to cover the broad area of Sabah. The researcher can only list down 4 areas for this research; Putatan, Tanjung Aru, Kota Kinabalu and Likas.
3. There are possibilities for backpacker accommodation operators who do not wish be interviewed by the researcher.
4. Time given to accomplish this research is considered too short to cover all subjects.

Therefore, future studies should broaden the scope and sample size in order to cover even broader issues and challenges. Duration of this study should also be prolonged for the researcher to visit every backpacker accommodation in Sabah.

## **1.8 Definition of terms:**

For the purpose of this study, the following terms are used to clarify their meaning in the context of this study:

### **1.8.1 Backpackers**

A "traveler" rather than "tourist" because of their nature of their travel e.g budget, spend more nights than the usual tourist, and willing to spend more for the experience (*O'Reilly, 2006*). This definition is not easily determined by their demographic as an economic background. (*Nash et al., 2005*)

### **1.8.2 Tourist**

A tourist is any person visiting a country other than that in which he has usual place of residence for any reason other than following remunerated

occupation from within the country visited (*World Tourism Organization, 1981*)

### **1.8.3 Visitors**

A visitor is any person traveling to a place other than his/her usual environment and staying there for no longer than 12 consecutive months and whose main purpose of travel is other than the exercise of an activity remunerated from within the place visited. The term visitor (domestic and international) comprises of tourists and same-day visitors. (*World Tourism Organization, 1981*)

### **1.8.4 Association**

Knowledge Center of ASAE & Center for Association Leadership (1996) defined "association as a group of people who find strength in numbers while sharing common interest in industries, professions, charities, hobbies or philanthropic action". In Malaysia, the Registrar Of Society has defined that association is any club, company, society or an association with 7 or more person who registered as a member without taking into consideration of the purpose of formation either temporarily or permanent establishment.

### **1.8.5 Backpacker Accommodation**

Backpacker accommodation is a hospitality business which is owned by a small family business with limited resources (*Morrison, 2002*). Basically, the operators will provide accommodation services in per bed basis. Beds are provided in shared room (dormitories) or individual rooms. Kitchen and bathroom are basically shared (*New Zealand Tourism, 2007*). Backpacker accommodation is sometimes known as Youth Hostel or Bed and Breakfast (B&B). On the other hand, backpacker accommodation is also similar in style with hostel, but may be run in less formal lines, such as 24 hours access. They are often more appropriate for longer term independent travelers and the younger end of the market; and they tend not to take in families. ([www.visitscotland.com](http://www.visitscotland.com))

### **1.8.6 Pricing**

The price is the amount that the customer must forgo in order to get a product or service. It is also an amount charge for a product/service of value (*Perreault et al., 2005*). All pricing strategies are based on the profit maximization objective which is to gain as much profit as possible for the business (*Collin & Parsa, 2006*).

### **1.8.7 Issues**

An issue is defined as a point or matter of discussion, debate, or dispute. Basically, issues refer to community problems which in return when resolve will bring benefit to the society.

### **1.8.8 Challenges**

There are numerous definitions of challenges. In the context of this research the researcher had decided to use the definition of "A demand for explanation or justification; a calling into question"